

Advertiser Editorial: PSC should hold formal review of utility return rates

montgomeryadvertiser.com

Utility rate regulation has to strike a fair balance between the legitimate financial interests of the regulated utility and the interests of the consumers. The utility needs to operate profitably, with a fair return on the investment it makes in providing service reliably and safely, and consumers need assurance that the rates they pay reflect that without going beyond reasonable limits.

That's why we applaud the call by Public Service Commission member Terry Dunn for a formal review of the ranges of return on equity allowed three of Alabama's largest utilities – Alabama Power Co., Alabama Gas and Mobile Gas. It's hard to argue against such a review when the rates of return have been unchanged for years.

Quite a few years, in fact. According to a report from Regulatory Research Associates, the return rate for Mobile Gas, 13.35-13.85 percent, has been in place since 2002. That's a full decade, but it's dwarfed by the time period for the other two utilities. Alabama Gas' return rate, 13.15-13.65 percent, has been in place since 1983. The rate for Alabama Power, 13-14.5 percent, is even older. It was set in 1982. That's three full decades.

If a utility's return drops below the permitted range, the PSC can raise rates to boost the return back within the range. If it rises above the range, the PSC can reduce rates.

A lot has changed since 1982 in terms of technology, economic and market conditions, customer bases and so forth. Surely a review of a 30-year-old arrangement is well justified. For that matter, even the 10-year-old structure for Mobile Gas is a reasonable subject for review.

The report also noted that these ranges of return were "well above" the average returns allowed other utilities across the country.

Although the PSC already plans "informational meetings" with Mobile Gas and PSC President Twinkle Cavanaugh says she wants to address other utilities in similar meetings to follow, Dunn's approach would be better. A formal review offers public hearings, document sharing and consumer input in a process more like a court proceeding.

Not surprisingly, the utilities like the current arrangements, but there are some fundamental questions that need answering. If the return rates are indeed significantly higher than national averages, why is that? Why do Alabama consumers pay substantially more for natural gas than consumers in Mississippi and Georgia?

The utilities say that variables between the states make direct comparisons invalid. Maybe so, but some detailed examination of those variables is certainly warranted.

Even though they have been in place a long time, the return rates may still be appropriate in today's Alabama. They also may not be, and a formal review would be an entirely proper exercise of the PSC's authority and of its obligation to both the utilities and the consumers.